
Meeting	Budget and Performance Overview and Scrutiny Committee
Date	16 September 2013
Subject	Report on Management of Capital Programme
Report of	Deputy Chief Operating Officer
Summary of Report	This report provides an update on the management of the capital programme and proposed improvements for 2013/14

Status (public or exempt)	Public
Wards Affected	All
Key Decision	N/A
Reason for urgency / exemption from call-in	N/A
Function of	Budget and Performance Overview and Scrutiny Committee
Enclosures	Appendix A: London Borough of Barnet Capital Strategy 2013/14 – 2017/18 Appendix B: Quarter 1 2013/14 Capital Monitoring Analysis
Contact for Further Information:	Contact for further information: Tom Pike: ☎ 020 8359 7058 tom.pike@barnet.gov.uk John Hooton: ☎ 020 8359 2460 John.hooton@barnet.gov.uk

1 RECOMMENDATION

- 1.1 That the committee consider the report and make comments and recommendations as appropriate.

2 RELEVANT PREVIOUS DECISIONS

- 2.1 Council, 5 March 2013: Approval of the report 'Business Planning 2013/14 - 2015/16' including the capital strategy and capital programme.
- 2.2 Audit Committee, 24 July 2013: Received the External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2012/13. This presented the external audit Value for Money (VFM) judgement based on the review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, and proposed an unqualified VFM conclusion. Capital programme management was noted as an area where the Council should take action to improve its performance.
- 2.3 Budget and Performance Overview and Scrutiny Committee 20 June 2013: Requested 'requested a report which provides an update on the capital programme'.

3 CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Council's budget including capital programme is focused on ensuring that resources are allocated in such a way to deliver the Council's strategic objectives, which are to:
 - Promote responsible growth, development and success across the borough
 - Support families and individuals that need it – promoting independence, learning and well-being
 - Improve the satisfaction of residents and businesses with the London Borough of Barnet as a place to live, work and study
- 3.2. The capital strategy has been developed to underpin the Corporate Plan, Housing Strategy and Regeneration Strategy. It brings together the key priorities for capital investment, sets out the strategy for use of various funding streams, and for the first time sets out a capital programme over a 5 year horizon. This programme is £450.232m from 2012/13 to 2017/18. Section 9 of this report provides a summary of the intended outcomes of the capital strategy.
- 3.3. This capital strategy takes the Council from an annual process of allocating capital budgets, to a 5 year rolling programme. This provides the organisation with greater certainty in delivery of capital projects and will ensure that resources are managed more effectively and that they deliver better outcomes for people, place and the organisation.

4 RISK MANAGEMENT ISSUES

- 4.1 Review of finance and performance issues by this Committee is intended to contribute to performance improvement, and therefore mitigate the risk of non-improvement and failure to meet the outcomes set in the Corporate Plan and associated strategies.
- 4.2 There is also a risk that where planned capital expenditure is not incurred, new borrowing could be taken out to finance projects that are then delayed, and time-limited capital grant could be put at risk. In 2012/13, the external auditor reached the conclusion that these potential risks were not a problem for the Council, but recognised that additional profiling activity and controls should be put in place to mitigate these potential risks.

5 EQUALITIES AND DIVERSITY ISSUES

- 5.1. Under the Equality Act 2010, the council and all other organisations exercising public functions on its behalf must have due regard to the need to: a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; b) advance equality of opportunity between those with a protected characteristic and those without; c) promote good relations between those with a protected characteristic and those without. The 'protected characteristics' referred to are: age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex and sexual orientation. With respect to a) the 'protected characteristics' also include marriage and civil partnership.
- 5.2 Having 'due regard' means: (i) consciously thinking about the three aims as part of the decision-making process; (ii) that an incomplete or erroneous appreciation of the duties will mean that due regard has not been given to them; and (iii) that the duty must be exercised in substance, with rigour and with an open mind.
- 5.3 Financial monitoring is important in ensuring resources are used to deliver the Council's priorities and outcomes, with change activities or infrastructure improvements funded through the capital programme aiming to provide equitable services to all members of the community.

6 USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

- 6.1. Robust budget and performance monitoring plays an essential part in enabling an organisation to deliver its objectives efficiently and effectively.
- 6.2. Capital investment plans are funded from a range of sources, resources generated internally, and those levered in from external organisations. These funding streams are as follows:
- Developer Contributions through Section 106;
 - Community Infrastructure Levy
 - New Homes Bonus
 - Government Grant Funding
 - Prudential Borrowing
 - Capital Receipts
 - Housing Revenue Account Funding
 - Tax incremental financing
- 6.3. The Council's budgeted capital programme is £450.232m from 2012/13 to 2017/18. In 2013/14, the budgeted programme is £112.895m, excluding the Housing Revenue Account capital commitments. Of this year of expenditure, £61.321m is allocated to schools, £4.538m is allocated to enable the waste transformation programme, £10.270m to regeneration, £8.369m to highways and £16.897m to the NSCSO delivery unit (of which £11.547m relates to the Depot Relocation Project).

- 6.4. The Council's 2013/14 capital programme for Quarter 1, to be reported to Cabinet Resources Committee on 24 September, is showing slippage of £20.344m and additions/deletions of £1.568m against a budget of £170.225m, which will include slippage from the previous financial year (not included in the budgeted programme figure above).

7 LEGAL ISSUES

- 7.1 Section 151 of the Local Government Act 1972 states that: "without prejudice to Section 111, every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". Section 111 of the Local Government Act 1972, relates to the subsidiary powers of local authorities.
- 7.2 Section 28 of the Local Government Act 2003 (the Act) imposes a statutory duty on a billing or major precepting authority to monitor, during the financial year, its income and expenditure against the budget calculations. If the monitoring establishes that the budgetary situation has deteriorated, the authority must take such action as it considers necessary to deal with the situation. Definition as to whether there is a deterioration in an authority's financial position is set out in sub-section 28(4) of the Act.

8 CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non Key Decision)

- 8.1 The scope of Overview and Scrutiny Committees are contained within Part 2, Article 6 of the Constitution;
- 8.2 Overview and Scrutiny Procedure Rules (Part 4 of the Constitution). The Budget and Performance Overview and Scrutiny Committee has, amongst other duties, responsibility for scrutinising the overall performance, effectiveness and value for money of Council services, including the planning, implementation and outcomes of all corporate improvement strategies.

9 BACKGROUND INFORMATION

Capital strategy

- 9.1 The Council's Capital Strategy has been developed to underpin the Corporate Plan, Housing Strategy and Regeneration Strategy. It brings together the key priorities for capital investment, sets out the strategy for use of various funding streams, and for the first time sets out a capital programme over a 5 year horizon.
- 9.2 The priorities for capital investment are based around the following themes:
- 9.2.1 **People** – the most important stakeholders for Barnet Council are local residents. The Capital Strategy focuses on capital investment plans that make a real difference to people. The most significant priorities are:
- Investment in provision of additional school places (primary and secondary) and education facilities (such as the Pupil Referral Unit and special schools);
 - Investment in disabled facilities adaptations to support older people to live at home and maintain their independence.
- 9.2.2 **Place** – the Capital Strategy must underpin the Regeneration Strategy and deliver its aspirations for Barnet as a place. The most significant priorities within this are:
- Investment in roads and pavements; and
 - Investment in infrastructure to support the delivery of regeneration projects.

The Infrastructure Delivery Plan (IDP) responds to demographic change in Barnet up to 2026 and drives the Council's prioritisation of investment in infrastructure. The population is expected to increase by 14% in the next 15 years. The IDP sets out the infrastructure required to support this growth. The high level of projected growth within a number of specific areas has strongly influenced how and where infrastructure such as open spaces, schools, leisure facilities and health centres is to be delivered. The IDP sets out the funded capital infrastructure projects across Barnet, and where these are delivered by Barnet Council, these are reflected in the Council's capital programme. The IDP also sets out unfunded infrastructure projects. The Community Infrastructure Levy is one source of funding designed to support these unfunded schemes. Consideration will be given to using HRA funding (both existing capital funding), on strategic interventions to enable schemes to progress in accordance with the regeneration strategy.

9.2.3 **Organisation** - alongside this, some funding needs to be set aside for essential projects to enable the Council to fulfil its statutory duties and this is reflected in the programme. The most significant priorities within this are:

- **Health and safety works** on Council owned buildings;
- **Drainage** works;
- Investment in **equipment** to support services.

9.3 The current programme is £450.232m from 2012/13 to 2017/18, with £90.5m government grants, £50.0m capital receipts, £134.2m borrowing, £145.8m Major Repairs Allowance (MRA), £9.2m capital reserve and £20.6m "other" funding.

9.4. Developer contributions through s106 funding is ringfenced to specific regeneration projects where delivery of particular items of infrastructure is necessary to manage future impacts of the development and is allocated to these within the programme. The Council is intending to set a Community Infrastructure Levy (CIL) from April 2013. This will be applied to all new development and is not ring fenced to individual schemes. The funding generated from this source will be added to the capital programme and allocated to the delivery of specific infrastructure projects.

9.5. Cabinet have taken the decision to earmark the New Homes Bonus (NHB) to fund infrastructure projects and this will be allocated as such in the capital programme. The total estimated funding available through NHB over the period to 2016 is over £30m.

9.6. Government grant funding (£90.5m) remains available to fund specific projects, usually this funding is ringfenced. The most significant elements are funding from the Department for Education in respect of new school places (estimated to be £20.8m in total over the period to 2018), and funding from Transport for London in respect of highways projects (approximately £9.9m last year).

9.7. Capital investment plans can be supported by prudential borrowing. Borrowing plans need to be prudent, affordable and sustainable, and these criteria are tested by applying prudential indicators as set out in the Council's annual budget report. Barnet Council currently spends £975 per head on borrowing.

9.8. The budget strategy also includes a target of £50m of capital receipts over the period 2013-16 to support the capital programme.

9.9. The Council also has funding available for capital projects through the Housing Revenue Account (HRA). This includes annual funding to support improvements to Council housing stock, and also includes the additional headroom available for investment in housing assets through the HRA reform that came into place on 1st April 2012.

9.10. Governance of the Capital Programme

9.11. The programme is set on a 5 year rolling programme. This provides the organisation with greater certainty in delivery of capital projects and will ensure that resources are managed more effectively and that they deliver better outcomes for people, place and the organisation. Approval to enter the capital programme is based on a set of criteria: The investment is necessary to deliver corporate objectives; the project or programme has been justified as the best way of delivering corporate priorities following proper options appraisal taking into account the costs and benefits of a project over its whole life cycle; no suitable alternative funding source is available; full project funding is in place or confirmation received that the proposal will be supported by other funders; the project complies with current environmental / energy efficiency standards; and that the project has undergone Equalities Impact Assessment. An effective and proportionate governance structure enables the Council to make timely and responsive decisions, based on sound business cases. It follows principles of risk management, escalations and of regular reporting.

9.12. Financial monitoring is undertaken monthly with quarterly reporting to Cabinet during the development and delivery phases. Monitoring of the delivery of projects takes place through a capital programme report (monthly and quarterly) and quarterly review of the delivery of all projects.

9.13. Capital Programme 2012/13

Service	2012/13 Budget (including prior year Slippage) £'000	In-year Slippage £'000	In-year Additions / Deletions £'000	Current Budget £'000	Actual Spend £'000	Outturn slippage £'000	Total Slippage (In year plus ouuturn) £'000
Adult Social Care	1,658	-	(541)	1,117	534	(583)	(583)
Central Expenses	2,178	-	(2,178)	-	-	-	-
Chief Executive Services	3,983	(3,001)	317	1,299	744	(555)	(3,556)
Children's Service	51,010	(31,140)	550	20,420	11,299	(9,121)	(40,261)
Capital Schemes Managed by Schools	3,305	-	-	3,305	3,305	-	-
Commercial Services	18,523	(12,768)	(150)	5,605	893	(4,712)	(17,480)
Corporate Governance	29	(29)	-	-	2	2	(27)
Deputy Chief Executive Services	-	-	-	-	-	-	-
Environment, Planning and Regeneration	24,321	(21,926)	16,640	19,035	14,386	(4,649)	(26,575)
General Fund Programme	105,007	(68,864)	14,638	50,781	31,163	(19,618)	(88,482)
HRA Capital	21,440	-	(4,375)	17,065	16,515	(550)	(550)
Total Capital Programme	126,447	(68,864)	10,263	67,846	47,678	(20,168)	(89,032)

The total slippage across the Council was £88.482m excluding HRA, this included £40.261m Children's Services, £17.480m Commercial Services and £26.575m Environment, Planning and Regeneration.

9.14. Capital Programme 2013/14

2013/14 Capital Quarter 1 Analysis – Summary

Service	2013/14 Latest Approved Budget	Additions/ (Deletions) - Quarter 1	(Slippage) / Accelerated Spend - Quarter 1	2013/14 Budget (including Quarter 1)	Forecast to year-end	Variance from Revised Budget
	£'000	£'000	£'000	£'000	£'000	£'000
Adults and Communities	1,904	477	(239)	2,142	2,142	238
Children's Education	70,465	(1,523)	(4,804)	64,138	64,138	(6,327)
Children's Family Services	3,516	-	(1,387)	2,129	2,129	(1,387)
Commissioning Group	-	14,748	(10,140)	4,608	4,608	4,608
Street Scene	13,525	100	(692)	12,933	12,933	(592)
DRS Delivery Unit	30,046	(146)	(3,082)	26,818	26,818	(3,228)
NSCSO Delivery Unit	22,063	(15,224)	-	6,839	6,839	(15,224)
General Fund Programme	141,519	(1,568)	(20,344)	119,607	119,607	(21,912)
HRA	28,706	-	-	28,706	28,706	-
Total Capital Programme	170,225	(1,568)	(20,344)	148,313	148,313	(21,912)

Proposed changes to the 2013/14 Capital Programme

Table below summarises the proposed funding changes to the capital programme in Quarter 1 2013/13 (reporting to Cabinet Resources Committee on 24 September).

2013/14 Capital Funding Changes

Service	Grants	S106 / Other	Capital Receipts	Revenue	Borrowing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Adults and Communities	(191)	-	379	-	50	238
Children's Education	(4,089)	(1,420)	444	15	(1,277)	(6,327)
Children's Family Services	-	-	(1,387)	-	-	(1,387)
Commissioning Group	-	-	3,919	-	689	4,608
Street Scene	(182)	(6)	(460)	(6)	62	(592)
DRS Delivery Unit	(578)	(168)	(1,518)	(35)	(929)	(3,228)
NSCSO Delivery Unit	-	-	(14,485)	-	(739)	(15,224)
General Fund Programme	(5,040)	(1,594)	(13,108)	(26)	(2,144)	(21,912)
HRA	-	-	-	-	-	-
Total Capital Programme	(5,040)	(1,594)	(13,108)	(26)	(2,144)	(21,912)

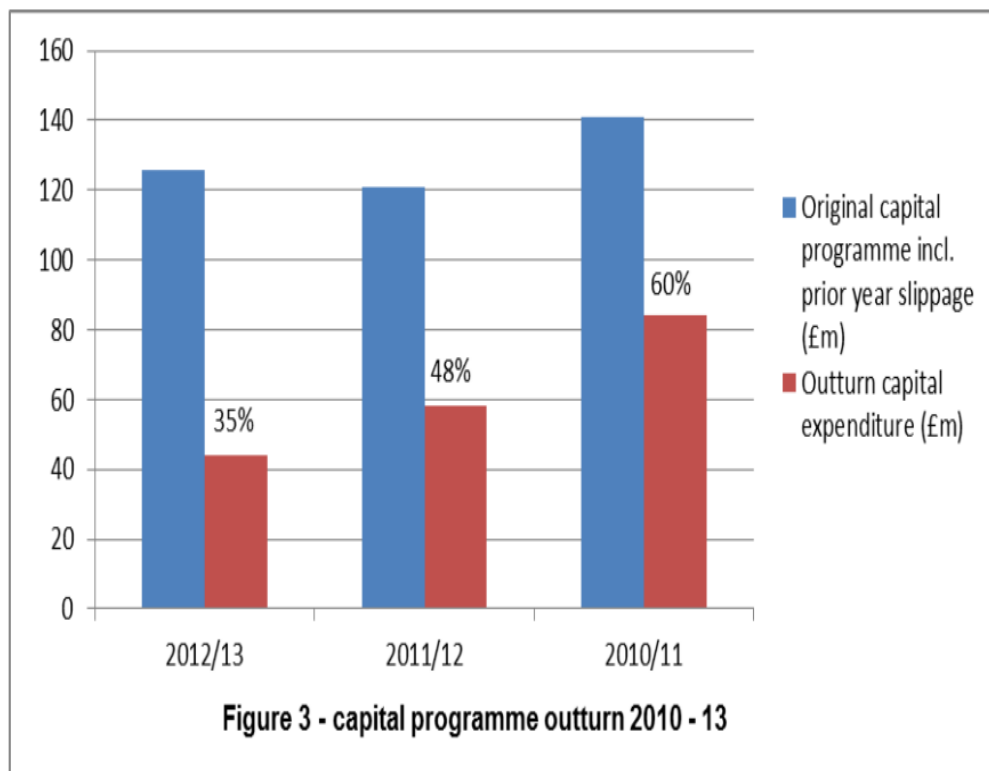
There has been a 13% reduction in the capital programme this quarter. The main projects affected are as follows:

- Deletions in Children's Education for Schools Modernisation & Access Improvement Programmes (£1.523m).
- Deletions in DRS for Highways non TFL (£0.146m).
- Slippage in the Commissioning Group for depot relocation (£10.140m).
- Slippage in Children's Education for:
 - Schools Modernisation & Access Improvement Programmes (£1.992m).
 - Urgent Primary Places (£2.000m).
 - General Schools Organisations (£0.559m).
 - Other Schemes (£0.253m).
- Slippage in Children's Family Services for the implementation of libraries Strategy (£1.387m).
- Slippage in the DRS Delivery Unit for:
 - General Fund regeneration (£1.050m).
 - Highways TFL (£0.678m).
 - Highways non-TFL (£0.621m).
 - Disabled Facilities Projects (£0.400m).
 - Other EPR projects (£0.300m).

This spend is planned to be incurred in future years and has been re-profiled appropriately.

9.15 Capital programme slippage between 2010/11 – 2012/13

Analysis of the capital programme over the period 2010/11 – 2012/13 has identified the total amount of slippage over the time period is £211.3m. £99.9m of this slippage relates to Children's Service which equates to 47.3% of total slippage. Of this 47.3%, £86m relates to school builds, further investigation has indicated this is probably a profiling issue within the programme that needs to be addressed in the future.



The directorate previously known as Environment, Planning and Regeneration contributed £58m of slippage, 27.4% of the total slippage. £24.4m related to Regeneration, of which £17.2m was slipped into the financial year 2013/14. This was due to an in year addition relating to Grahame Park being profiled in the current financial year when the scheme was not actually deliverable until future years. This again indicates a profiling issue within the capital programme. The other noticeable area of slippage in the directorate was Highways £15.7m. The majority of Highways works are TfL funded, and schemes have specific programme years which do not always tend to fit into financial years.

9.16. Improving capital programme management – Assets and Capital Board

The Council has taken steps to improve internal governance of the assets and capital programme. In April 2013, the Council put in place a new officer group – the Assets and Capital Board – to oversee the development of the capital programme and strategies, monitoring delivery, and tracking benefits. The Board has set terms of references, designed to oversee key phases of the capital project lifecycle; aiming to ensure the asset portfolio is managed effectively by making recommendation to CRC on use of assets, including acquisitions and disposals; providing strategic advice; defining and disseminating best practice. Once a capital project or programme is approved (e.g. via CRC) decision making in accordance with the principles agreed are delegated to the relevant programme board.

9.17. Assessing future capital needs

A capital needs analysis is being undertaken to inform the capital investment strategy to 2017/18. This exercise will also map the capital priorities of the authority to 2020 to feed into the wider Priorities and Spending Review (PSR) project.

The objective for this area of work is to understand the capital needs of the authority in order to inform a revised capital investment strategy and to ensure more robust budget setting, monitoring and delivery of projects.

An action plan is in place to ensure an objective approach to capital prioritisation and a clear methodology for the allocation of capital funding. The exercise aims to ensure more effective profiling, monitoring and delivery of capital projects from the point of their approval.

Several stages of internal officer review and challenge is scheduled between October 2013 and January 2014, to develop a capital programme for consideration by Cabinet in February 2014.

9.18. Action plan to improve capital programme management

	Proposed activities
Improving profiling of capital spend	<ul style="list-style-type: none"> ▪ Identifying potential projects for 2014/15, 2015/16 in September ▪ Develop prioritisation criteria for new capital projects - September ▪ Establish challenge sessions for 2014/15 – to challenge initial proposals, and the phasing of the activity (September – November) ▪ All new entrants to the capital programme for 2014/15 will be required to complete a proforma (i.e. summary elements of a business case, key timings) before capital resources are allocated
Review and challenge of spend and projections	<ul style="list-style-type: none"> ▪ Budget managers to complete monthly monitoring of capital ▪ Finance teams to increase challenge and give advice and support ▪ Capital project highlight reports to also include tracking of capital spend milestones ▪ Review of capital variances each quarter through officer groups and to scrutiny committee ▪ Reviewing other local authorities best practice
Identifying longer-term capital requirements	<ul style="list-style-type: none"> ▪ Detailed 'capital needs' assessment process to establish longer-term needs and profile of spend ▪ Assessment process to consider deliverability and planning to ensure robust plans are in place before inclusion into the capital programme

10. LIST OF BACKGROUND PAPERS

10.1 None.

Cleared by Finance (Officer's initials)	AD
Cleared by Legal (Officer's initials)	SW